

1. How does base erosion and profit shifting affect your country?

They are a threat to proper business and fair competition resulting in an increased tax burden on all other taxpayers. Profits should be taxed where the economic activity takes place rather than where the goods or services are sold.

2. If you are affected by base erosion and profit shifting, what are the most common practices or structures used in your country or region, and the responses to them?

Tonga has a relatively new Income Tax system in which the issue of base erosion and transfer pricing are addressed to some extent. It is addressed through a non resident withholding tax regime such that a non resident conducting business is subject to Tongan non resident withholding tax irrespective of where the services are performed if paid by a Tongan residents. The gaps that are a threat are non residents operating through branches, non Tongans operating businesses that are solely for Tongans, transfer pricing through double/fictitious invoices and transfer of goods from one country to another without paying for them.

Tourist businesses sell packages offshore and through the internet but the service is performed in Tonga and no profits assessed in Tonga as the income derived is not repatriated to Tonga.

Tonga does not have any Double Taxation Agreements but has prepared Exchange of information agreements with 2 countries which are i
administration has risk analysis tools to identify taxpayers who do not comply with the tax obligation. Once identified, the taxpayers are subjected totax audit proceduresfor the tax assessment and collection. Additionally, the Tongan-

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amount of profit is reported in your jurisdiction a nd in ensuring
on such profit?

The main obstacle is the lack of effective exchange of tax informat
relating to branches and significant unregulated cash economy eco

Not having robust transfer pricing guidelines that require taxpayer
principle for related party transactions.

**5. Do you agree that actions 4, 6, 8, 9, 10, 11, 12 and 13 are pa
priorities for developing
countries?**

Yes

6. Which of these OECD's Action Points do you see as being most important for